

**CITY OF ATLANTA**  
**DEPARTMENT OF FINANCE**  
**OFFICE OF MUNICIPAL FINANCE**

**Refunding Policy**

**Scope:**

- The Refunding Policy applies to all funds of the City of Atlanta whether they are derived from General Fund Activities or Enterprise Fund Activities including general obligation, appropriation debt, enterprise fund debt, capital leases and any other debt instruments for which the City is obligated either directly or on a contingent basis to pay debt service.
- The City may consider, subject to satisfactory legal opinions and with the recommendation of the Chief Financial Officer “CFO”, the use of a Synthetic Refunding or a Forward Refunding in order to achieve one of the stated purposes.

**Objectives:**

- Refunding bonds should be issued only when the issuance is of benefit to the City.
  - Provide present value debt service savings to the issuer
  - To eliminate burdensome or restrictive covenants imposed by the terms of the bonds being refunded
  - To reduce annual debt service payments made by the City.

**Guidelines:**

- The final maturity on the Refunding Bonds should be no longer than the final maturity on the Refunded Bonds.
- Refunded issues should be amortized to achieve level annual debt service savings or to achieve specific objectives as defined by the CFO. “Upfront” or “deferred” debt service savings structures should be employed only as necessary to meet specific objectives.
- Present Value Savings Parameters
  - 5% present value savings for bonds refunded within five years from their issuance date
  - 3% present value savings for bonds refunded more than five years from their issuance date.
  - 3.5% aggregate present value savings when refunding bonds of several different series where some series are within five years of their issuance and some are more than five years from their issuance.
- Advance Refunding
  - Prudent analysis to be performed to determine the most efficient method of funding the escrow portfolio. The analysis will review the use of State

and Local Government Series (“SLGS”) or open market Treasury securities. Recommendations will be made to the Chief Financial Officer or designee for action.

- Escrow portfolio will be bid competitively. Details of the process for bidding escrow securities (including the number and names of bids solicited (minimum of three) and bids received) will be retained by the City for the life of the bonds.

## GLOSSARY

- **Call/Redemption** – A transaction in which the issuer returns the principal amount represented by an outstanding security ( plus, in some cases, an additional amount or “premium”). Redemption can be made at maturity of the security, as a result of the issuer’s call of the securities prior to their stated maturity date, or in the case of variable rate debt, as a result of the security holder’s election to exercise a put or tender option privilege.
- **Call Provisions** – The terms of the bond contract giving the issuer the right, or requiring the issuer to redeem or “call” all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specified price, usually at or above par and stated as a percentage of the principal amount called.
- **Present Value** – the value at the current time of a cash payment or stream of payments which is expected to be received in the future, allowing for the fact that an amount received today could be invested to earn interest until the future date(s).
- **Present Value Savings** – A method of calculating the aggregate amount of savings on a refunding transaction. In each semi-annual period, the present value (“PV”) of the debt service on the Refunding Bonds is subtracted from the PV of the debt service on the Refunded Bonds using the arbitrage yield on the refunding bonds as the discount rate. The PV savings in each year are added together to result in the aggregate PV Savings.
- **Present Value Savings Percentage** – The Present Value Savings divided by the principal amount of the Refunded Bonds.
- **Refunding** – A procedure whereby an issuer refinances outstanding bonds by issuing new bonds. Bonds are usually refunded to either reduce the issuer’s interest costs or to remove a burdensome or restrictive covenant imposed by the legal terms of the bonds being refinanced. The new bonds are called the “refunding bonds.” An Advance Refunding is a type of refunding where outstanding securities are refinanced by the proceeds of a new issue of securities more than 90 days prior to the date on which the outstanding securities become due or are callable. The proceeds of the new securities are deposited in escrow and invested in U.S. Government or federal agency securities, with principal and interest on the escrowed securities used to pay principal and interest on the refunded bonds up to and including the Redemption or Call. The Internal Revenue code restricts the yield on such escrowed securities. A Current Refunding is a type of refunding where the proceeds of the new bonds are used within 90 days of closing to retire the refunded obligations. If the proceeds are not used immediately (i.e., on the day of closing) to retire the refunded obligations, it may still be necessary to establish a portfolio of escrow securities.

The Internal Revenue Code does not impose the same yield restriction on Current Refundings that they do on Advance Refundings.

- **Forward Refunding** – A refunding in which bonds are sold with the intent to close or deliver at some future point in time, generally more the 30 days after pricing, and often to coincide with a date 90 days prior to the call date on the refunded bonds, thereby qualifying as a Current Refunding.
- **Synthetic Refunding** – There are certain techniques that can create present value savings by synthetically refunding bonds that may not be otherwise refunded. These techniques include the use of interest rate swaps and potentially other municipal derivative structures. In general, the present value savings should equal or exceed those available from a more standard refunding transaction, while minimizing other risks associated with these techniques.